



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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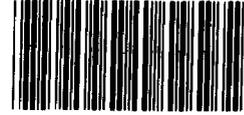
INTERNATIONAL DIVISION

B-208826

JANUARY 21, 1983

RELEASED

The Honorable Joseph M. Gaydos  
Chairman, Congressional Steel Caucus  
House of Representatives



120640

Subject: Defense Department Foreign Source  
Procurement (GAO/ID-83-22)

Dear Mr. Chairman:

Your May 13, 1982, letter to the Comptroller General requested, among other things, information on the value of and restrictions on foreign source procurement in Defense Department prime contract and subcontract awards since fiscal year 1978. Mr. Philip Ola, Staff Director, Congressional Steel Caucus, asked that our response include such information on the Corps of Engineers' projects in the United States. This letter responds to both requests.

The Defense Department's Procurement Management Reporting System collects information on individual contracts for supplies and services (including construction) that exceed \$10,000. Defense contract officials provide the information on a standardized form (DD Form 350) shortly after a contract is executed or changed. The information is later verified by other contracting officials and then stored on magnetic tape by fiscal year.

We used copies of these tapes to extract prime contract procurement data for fiscal years 1979-82. The information enabled us to determine the (1) value and composition of Defense's foreign source procurement, (2) supply and service categories showing the largest increases during fiscal years 1979-82, (3) extent to which foreign source procurement was exempt from Buy American Act (41 U.S.C. 10a-10d) restrictions, and (4) countries having the largest dollar volume of Defense contract awards and the composition of those awards. We also used the data to identify foreign source procurement in the Corps of Engineers' domestic projects.

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We performed our review generally in accordance with our "Standards for Audit of Government Organizations, Programs, Activities, and Functions."

FOREIGN SUPPLIERS' SHARE OF DEFENSE PRIME CONTRACT PROCUREMENT HAS INCREASED

In our May 1978 report<sup>1</sup> to the Chairman of the Congressional Steel Caucus, we indicated that Defense's foreign prime contract awards as a percentage of its total procurement for services and equipment (contracts in excess of \$10,000) had remained relatively stable over a 3-year period. Foreign awards for fiscal years 1975-77 were 6.9, 6.7, and 6.7 percent of total prime contract procurement, respectively. As shown in table 1, this procurement for fiscal years 1979-82 increased to 8.8, 10.0, 8.8, and 9.7 percent. Thus foreign source procurement as a percentage of total procurement rose an average of 2.6 percent over that of the 1975-77 period. Construction and service awards accounted for this increase. Contracts for construction in Saudi Arabia (reimbursable to the U.S. Government) represented a majority of the increase in construction.

Table 1

Defense Prime Contract Awards  
((\$10,000 or more))

	Fiscal Year				Total
	1979	1980	1981	1982	
Total prime contract awards	\$64,352,080	\$76,806,412	\$97,388,528	\$116,659,742	\$355,206,762
Foreign prime contract awards:					
Construction	\$1,398,490	\$1,407,924	\$1,756,602	\$2,766,565	\$7,329,581
Research and development	88,875	115,570	148,828	124,591	477,864
Services	2,418,455	3,040,643	3,213,446	4,512,811	13,185,355
Supplies and Equipment	1,754,787	3,083,309	3,449,468	3,962,159	12,249,723
Total	\$5,660,607	\$7,647,446	\$8,568,344	\$11,366,126	\$33,242,523
Foreign prime contract awards as percent of total procurement	8.8%	10.0%	8.8%	9.7%	9.4%

Since fiscal year 1978, Defense Acquisition Regulations (DAR 21-131) have required contracting officials to estimate the

<sup>1</sup> ID-78-42, May 18, 1978

percent of foreign content in both domestic and foreign prime contract awards at the time contracts are awarded or amended. This estimate, we were told, represents the contracting officers' knowledge of the suppliers, the materials or services being procured, and the market for such materials or services. Defense, however, feels that the estimates generally are of dubious value. As shown in table 2, adjusting prime contract awards by these estimates resulted in a net increase of 0.2 percent or less in foreign source procurement for each year calculated.

Table 2

Foreign Content  
in Defense Prime Contract Awards  
(\$10,000 or more)

	<u>Fiscal year</u>				<u>Total</u>
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	
	(000 omitted)				
Total prime contract awards	<u>\$64,352,080</u>	<u>\$76,806,412</u>	<u>\$97,388,528</u>	<u>\$116,659,742</u>	<u>\$355,206,762</u>
Total foreign prime contract awards	\$5,660,607	\$7,647,446	\$8,568,344	\$11,366,126	\$33,242,523
Less domestic content in foreign prime contract awards	<u>-90,141</u>	<u>-80,027</u>	<u>-98,605</u>	<u>-161,724</u>	<u>-430,497</u>
	<u>5,570,466</u>	<u>7,567,419</u>	<u>8,469,739</u>	<u>11,204,402</u>	<u>32,812,026</u>
Plus foreign content in domestic prime contract awards	<u>216,860</u>	<u>259,508</u>	<u>240,137</u>	<u>149,261</u>	<u>865,766</u>
Foreign content	<u>\$5,787,326</u>	<u>\$7,826,927</u>	<u>\$8,709,876</u>	<u>\$11,353,663</u>	<u>\$33,677,792</u>
Foreign content as percent of total	9.0%	10.2%	8.9%	9.7%	9.5%

Returning to table 1, it can be seen that during the 1979-82 period, the largest increase in foreign source awards occurred in the supplies and equipment category. Defense awarded about \$2.2 billion more to foreign firms for supplies and equipment in fiscal year 1982 than in 1979. Most of this

increase (about 83 percent) occurred in the oils and fuels category, reflecting the sharp increase in petroleum prices over the period reviewed. The general product categories that had the largest dollar increases over this same period are shown in table 3.

Table 3  
Defense Foreign Prime Contract Awards  
for Supplies and Equipment

	Fiscal Year				Increase in 1982 over 1979
	1979	1980	1981	1982	
	(000 omitted)				
Oil and fuels	\$1,080,913	\$2,374,022	\$2,549,683	\$2,907,806	\$1,826,893
Communication equipment	81,849	132,180	151,490	253,879	172,030
Engines and components	88,305	102,249	145,218	143,024	54,719
Aircraft launching and ground equipment	1,775	3,571	8,649	54,547	52,772
Vehicles, trailers, and cycles	17,462	22,907	45,664	69,953	52,491
Aircraft components and accessories	18,383	24,015	29,889	42,170	23,787
Furniture	3,791	1,380	12,280	26,177	22,386
Weapons	24,489	20,156	30,840	43,571	19,082
Subsistence	93,133	113,137	109,106	111,992	18,859
Ship and marine equipment	1,336	1,414	1,474	16,803	15,467
Other supply and equipment categories	343,351	288,278	365,175	292,237	-51,114
Total	<u>\$1,754,787</u>	<u>\$3,083,309</u>	<u>\$3,449,468</u>	<u>\$3,962,159</u>	<u>\$2,207,372</u>

RESTRICTIONS ON FOREIGN SOURCE PROCUREMENT

Legislative and administrative provisions restrict the amount of goods and services Defense may procure from foreign sources. Defense appropriations legislation contains restrictions on the procurement of food, clothing, textiles, specialty metals, and shipbuilding. These restrictions, however, do not

apply when items are not available as and when needed in the United States or are for procurement outside the United States in support of combat operations or for emergencies or perishable foods.

The Buy American Act also restricts Defense procurement. The Act generally requires that Federal agencies procure domestic material products when such items are (1) intended for public use within the United States and (2) available in sufficient and reasonably available commercial quantities in the United States.

Buy American Act provisions do not apply to purchases of goods and services that will be used or consumed outside the United States. The provisions may also be waived if the head of the procuring agency determines either that the cost of the domestic product is unreasonable or that domestic acquisition is inconsistent with the public interest.<sup>1</sup>

#### Most foreign source awards exempt from Buy American Act restrictions

Our review of Defense's foreign source prime contract awards shows that between 63 and 69 percent of these purchases were exempt from Buy American Act restrictions during 1979-82. Exempt purchases, readily identifiable in the data, consisted primarily of services and fuel supplies which were procured overseas for use outside the United States, were unavailable domestically in sufficient quantities, or were awarded noncompetitively. Over 69 percent of the foreign services purchased involved the operation of Government-owned facilities; maintenance and repair of equipment and real property; utilities; and housekeeping duties, such as laundry, guard, janitorial, and custodial services. These expenditures were made in support of U.S. forces overseas and would have been subject to little competition from U.S. firms. Construction projects and related supplies, for the most part, were also awarded to firms in the country where the project was located. Such procurement, however, was usually formally advertised.

In the supplies and equipment category, Defense awarded about \$12.2 billion to foreign firms during fiscal years 1979-82. However, more than \$8.9 billion of this went for fuels and other petroleum-based products (for which the United States is a net importer) and almost \$427 million went for subsistence items.

<sup>1</sup>Defense Acquisition Regulations (DAR 6-104.4) define conditions under which a domestic bid is unreasonable and inconsistent with the public interest.

Enclosure I summarizes foreign prime contract awards for supplies and services which were exempt from Buy American Act restrictions. During fiscal years 1979-82, about \$11.7 billion, or 35.1 percent, of total foreign source procurement at the prime contract level was awarded under circumstances which would allow for price competition from both domestic and foreign firms. In these cases, the foreign firms were able to overcome the price differentials of the Buy American Act, were exempt from these price differentials under reciprocal or offset agreements, or were awarded the contracts because domestic firms did not bid.

Enclosure II identifies those countries receiving \$1 billion or more in Defense procurement awards for the period reviewed and the composition of those awards.

FOREIGN PROCUREMENT NEGLIGIBLE IN  
DOMESTIC CORPS OF ENGINEERS' PROJECTS

Review of Defense Procurement Management Reporting System data for domestic Corps of Engineers' projects shows that foreign content in such projects totaled only \$30.8 million out of more than \$12 billion awarded by the Corps during fiscal years 1979-82. Foreign content, therefore, represented one quarter of one percent of total procurement for the period, as shown in table 4.

Table 4

Foreign Content Reported  
in Domestic Corps of Engineer Projects  
(\$10,000 or more)

<u>Fiscal year</u>	<u>Category</u>	<u>Total prime contract award</u>	<u>Foreign content reported</u> (000 omitted)	<u>Percent foreign content</u>
1979	Military	\$1,099,684	\$ 22	0.00
	Civilian	<u>1,455,603</u>	<u>7,180</u>	0.49
		2,555,287	7,202	0.28
1980	Military	1,336,436	19	0.00
	Civilian	<u>1,756,905</u>	<u>7,778</u>	0.44
		3,093,341	7,797	0.25
1981	Military	1,459,130	5	0.00
	Civilian	<u>1,879,693</u>	<u>9,497</u>	0.50
		3,338,823	9,502	0.28
1982	Military	1,664,291	77	0.00
	Civilian	<u>1,773,015</u>	<u>6,291</u>	0.35
		3,437,306	6,368	0.19
<b>Total</b>		<u>\$12,424,757</u>	<u>\$30,869</u>	0.25

An analysis of foreign source procurement by procurement office reveals that 92.7 percent of the amount of foreign content reported occurred in 6 of the Corps' 62 domestic procurement offices. Further, the Portland, Oregon, procurement office accounted for almost 59 percent of the foreign content reported.

Procurement Offices Reporting  
Foreign Content in Excess of \$1 Million

<u>Fiscal year</u>	<u>District</u>	<u>Foreign Content Reported</u>
1979	Portland, Oreg.	\$5,456,140
	Philadelphia, Pa.	1,100,000
1980	Portland, Oreg.	7,310,310
1981	Portland, Oreg.	5,597,660
	Baltimore, Md.	3,235,350
1982	Savannah, Ga.	3,401,130
	New Orleans, La.	1,107,040
	Seattle, Wa.	<u>1,422,100</u>
Total		<u>\$28,629,730</u>

We expect to complete our analysis of the Corps of Engineers' response to your request for information on foreign source awards for steel and steel-related products and report to you on this matter shortly.

SUBCONTRACT LEVEL PROCUREMENT  
REPORTING SYSTEM APPROVED  
BUT NOT FULLY OPERATIONAL

The Defense Department is in the process of implementing a reporting system to identify foreign source procurement at the subcontract level. We are, therefore, unable to provide you with meaningful data on subcontract level foreign source procurement at this time.

Defense received Office of Management and Budget approval for the subcontract level reporting system in April 1982. In late June, it established a reporting requirement for all prime

contractors awarded contracts or contract modifications exceeding \$500,000 for other than commercial items<sup>1</sup> or identified exceptions<sup>2</sup> (DAR 1-340,7-104.78). First-tier subcontractors awarded subcontracts in excess of \$100,000 were also to be made subject to the reporting requirement by the prime contractor.

Those required to report to Defense must identify each subcontract or modification which exceeds \$10,000 where the principal place of performance is outside the United States or its territories and possessions. The contractor is required to identify, among other things, the (1) type of supply or service provided, (2) principal place of subcontract performance, and (3) dollar value of the transaction. The information is to be reported quarterly to Defense.

Only those contractors receiving new awards or modifications are subject to the reporting requirement. It will therefore be about 6 months before Defense has received data for a representative period (one year) from the targeted group of contractors.

Another factor complicating full implementation of the reporting system is that Defense has only recently approved a standardized form for the collection of the data. Since July, when the reporting requirement went into effect, contractors have been reporting in a non-standardized way, thus making it difficult to store, aggregate, or manipulate the data for statistical purposes.

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We are still developing the information you requested on (1) Defense's foreign source procurement of specialty metals, (2) defense items restricted to U.S. and Canadian sources pursuant to industrial mobilization planning and (3) the most current projection of Defense's steel requirements. We will provide this information to you as soon as possible.

<sup>1</sup>Defined as "...an item, including both supplies and services, of a class or kind which is used regularly for other than Government purposes, and is sold or traded in the course of conducting normal business operations."

<sup>2</sup>Exceptions are contracts for ores, natural gas, utilities, petroleum products and crudes, timber (logs) and subsistence.

A draft of this letter was reviewed by Defense Department officials responsible for procurement reporting, and their comments were considered in preparing the final letter.

As arranged with your office, we plan no further distribution of this report until 30 days from the date it is issued. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Frank C. Conahan  
Director

Enclosures - 2

**DEFENSE FOREIGN PRIME CONTRACT PROCUREMENT EXEMPT  
FROM BUY AMERICAN ACT RESTRICTIONS**  
(Awards in excess of \$10,000)

Category	Reason for exemption waiver	Fiscal year				Total
		1979	1980	1981 (000 omitted)	1982	
Construction	a/Purchased overseas for use overseas	\$ 274,748	\$ 186,679	\$ 408,057	\$ 419,767	\$ 1,289,251
RD&E (note b)	"	34,463	63,761	60,048	63,383	221,655
Services	"	1,381,517	1,568,861	2,080,648	2,524,796	7,555,822
Supplies and equipment	"	1,128,346	2,660,704	2,461,071	2,494,808	8,744,929
Subtotal		2,619,074	4,480,005	5,009,824	5,502,754	17,811,657
Oils and other fuels (in addition to that included above)	Unavailable domes- tically in sufficient commercial quantities	182,169	19,017	402,853	676,638	1,280,677
Subtotal		3,001,243	4,499,022	5,412,677	6,179,392	19,092,334
Other sole source and other non-price competitive awards		661,095	339,863	523,314	965,747	2,490,019
Subtotal		3,662,338	4,838,885	5,935,991	7,145,139	21,582,353
Could not classify		0	0	1,323	1,998	3,321
Subtotal		3,662,338	4,838,885	5,937,314	7,147,137	21,585,674
Foreign source Procurement Subject to price competition (note c,d)		1,998,269	2,808,561	2,631,030	4,218,989	11,656,849
Total foreign prime contract awards		\$5,660,607	\$7,647,446	\$8,568,344	\$11,366,126	\$33,242,523

<sup>a</sup>Includes both competitive and non-competitive awards.

<sup>b</sup>Research, development, test, and evaluations.

<sup>c</sup>Excludes competitive awards for supplies and services consumed outside United States.

<sup>d</sup>Buy American Act Restrictions may or may not have applied to these awards. Data did not permit us to identify awards made under reciprocal or offset agreements.

COUNTRIES RECEIVING OVER \$1 BILLION IN  
DEFENSE PRIME CONTRACT PROCUREMENT AWARDS

Country	Fiscal Year				Total
	1979	1980	1981	1982	
	----- (000 omitted) -----				
<b>Saudi Arabia:</b>					
Construction (note a)	\$1,040,547	\$1,131,669	\$1,248,552	\$2,226,617	\$5,647,385
RDT&E	-	-	-	-	-
Services	458,158	1,184,614	903,502	1,731,377	4,277,651
Supplies & equipment					547,891
Oil and fuels	-	532	35,945	315,340	
Communication equip.	307	55	11,392	2,229	
Vehicles, trailers, cycles	475	1,449	2,066	5,433	
Furniture	717	45	9,037	5,244	
Marine equipment	-	-	-	17	
Other	113,427	11,397	24,601	8,183	
<b>Total</b>	<b>\$1,613,631</b>	<b>\$2,329,761</b>	<b>\$2,235,095</b>	<b>\$4,294,440</b>	<b>\$10,472,927</b>
<b>Germany:</b>					
Construction	\$215,576	\$148,710	\$156,839	\$240,591	\$761,716
RDT&E	2,035	3,827	9,772	3,193	18,827
Services	551,640	572,506	969,287	1,054,729	3,148,162
Supplies & equipment					1,349,198
Oil and fuels	87,712	227,992	232,708	285,189	
Communication equip.	1,564	1,231	13,688	27,354	
Engines, turbines, and components	65	241	1,173	581	
Aircraft launching and ground equipment	-	-	100	16	
Vehicles, trailers, cycles	8,511	12,492	38,681	21,798	
Aircraft components	47	414	-	267	
Furniture	600	108	1,485	12,462	
Weapons	-	15,493	452	81	
Subsistence	32,329	44,115	50,094	51,180	
Marine equipment	130	-	25	319	
Other	38,039	35,420	52,571	52,471	
<b>Total</b>	<b>\$938,248</b>	<b>\$1,062,549</b>	<b>\$1,526,875</b>	<b>\$1,750,231</b>	<b>\$5,277,903</b>
<b>Greece:</b>					
Construction	\$ 657	\$ 324	\$ 2,910	\$ 1,065	\$ 4,956
RDT&E	-	896	58	4	958
Services	17,114	20,251	26,035	30,659	94,059
Supplies and equipment					2,488,003
Oil and fuels	192,885	1,071,439	590,547	632,723	
Vehicles, trailers, cycles	-	-	116	-	
Subsistence	-	38	30	-	
Other	-	88	39	98	
<b>Total</b>	<b>\$210,656</b>	<b>\$1,093,036</b>	<b>\$619,735</b>	<b>\$664,549</b>	<b>\$2,587,976</b>

<sup>a</sup> Most Saudi Arabia construction is reimbursable to U.S. Government under Foreign Military Sales agreements.

Country	Fiscal Year				Total
	1979	1980	1981 (000 omitted)	1982	
<b>Italy:</b>					
Construction	\$ 9,275	\$ 9,151	\$ 28,656	\$ 6,235	\$ 53,317
RO&E	2,029	44	59	172	2,304
Services	22,761	30,406	39,472	52,084	144,723
Supplies and equipment					1,232,013
Oils and fuels	133,166	338,653	366,553	317,834	
Communication equip.	27	23	64	396	
Engines, turbines and components	-	-	-	432	
Vehicles, trailers, cycles	233	-	925	180	
Furniture	1,292	559	127	5,274	
Weapons	12,866	69	25,280	12,989	
Subsistence	739	1,066	1,213	885	
Other	1,755	1,984	2,565	4,864	
<b>Total</b>	<b>\$184,143</b>	<b>\$381,955</b>	<b>\$464,914</b>	<b>\$401,345</b>	<b>\$1,432,357</b>
<b>Canada:</b>					
Construction	\$ 4,991	\$ 8,770	\$ 23,375	\$ 18,217	\$ 55,353
RO&E	8,508	13,097	16,529	7,729	45,863
Services	72,301	67,319	85,395	266,646	491,661
Supplies and equipment					825,056
Oil and fuels	3,675	16,334	10,464	13,959	
Communication equip.	64,683	31,109	89,740	161,671	
Engine, turbine, and components	5,356	7,129	13,612	12,856	
Aircraft launching & ground equipment	1,699	3,474	8,047	42,234	
Vehicles, trailers, cycles	5,829	6,905	2,970	35,648	
Aircraft components	8,331	11,704	15,810	21,249	
Furniture	364	79	124	74	
Weapons	57	103	55	317	
Subsistence	-	-	-	3,023	
Marine equipment	182	12	323	12,451	
Other	42,591	34,527	68,209	68,077	
<b>Total</b>	<b>\$218,567</b>	<b>\$200,562</b>	<b>\$334,653</b>	<b>\$664,151</b>	<b>\$1,417,933</b>

Country	Fiscal Year				Total
	1979	1980	1981	1982	
	(000 omitted)				
<b>Japan:</b>					
Construction	\$ 9,442	\$ 7,966	\$ 23,244	\$ 24,962	\$ 65,614
RDT&E	155	-	525	164	844
Services	549,377	497,771	584,398	571,135	2,202,681
Supplies and equipment					230,567
Oils and fuels	7,480	22,640	57,614	50,746	
Communications equip.	4,948	5,442	6,049	9,582	
Engines, turbines, and components	13	112	-	46	
Aircraft launching and ground equipment	-	-	-	12	
Vehicles, trailers, cycles	1,445	1,632	906	3,026	
Furniture	243	-	489	1,309	
Subsistence	1,087	1,613	1,395	1,531	
Marine equipment	-	101	-	261	
Other	7,722	7,147	23,541	12,435	
<b>Total</b>	<b>\$581,912</b>	<b>\$544,424</b>	<b>\$698,161</b>	<b>\$675,209</b>	<b>\$2,499,706</b>
<b>United Kingdom:</b>					
Construction	\$5,839	\$5,414	\$9,659	54,658	\$75,570
RDT&E	2,292	11,325	13,643	12,493	39,753
Services	34,301	46,054	42,846	41,439	164,640
Supplies and equipment					1,529,985
Oils and fuels	49,151	53,289	339,874	151,824	
Communication equip.	681	86,632	18,805	2,761	
Engines, turbines, and components	82,150	95,184	112,595	99,280	
Aircraft launching & ground equipment	65	97	465	12,165	
Vehicles, trailers, cycles	232	-	-	3,606	
Aircraft components	9,978	9,850	9,466	17,978	
Furniture	235	462	680	1,126	
Weapons	8,365	3,981	4,741	4,072	
Subsistence	8,318	12,401	11,125	11,963	
Marine equipment	850	818	1,107	3,215	
Other	36,673	96,334	79,048	88,343	
<b>Total</b>	<b>\$239,130</b>	<b>\$421,841</b>	<b>\$644,054</b>	<b>\$504,923</b>	<b>\$1,809,948</b>